



Investment Office

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June 16, 2008

AGENDA ITEM 5a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** AIM Public Sector Outsourcing Policy Update
- II. PROGRAM:** Alternative Investment Management (AIM) Program
- III. RECOMMENDATION:** Information
- IV. ANALYSIS:**

At its December 13, 2004 meeting, the Investment Committee approved the Policy for Restricting AIM Investments in Public Sector Outsourcers (the "Policy"). A copy of the Policy is contained in Attachment 1. The objective of this Policy is to restrict private equity investments in entities that are likely to outsource (or privatize) U.S., state, and local public sector jobs.

The Policy requires Staff to give periodic updates to the Investment Committee about results and effectiveness of the Policy and any impact the Policy may be having on AIM Program's investment opportunities.

Results, Effectiveness, and Impact

In Staff's judgment, there have been minimal issues associated with implementing the Policy to date.

In accordance with the Policy, AIM's prospective general partners are required to sign an agreement that compels them to make a good faith effort to comply with the Policy, which restricts investments in Outsourcers as defined in the Policy. If the general partner does not agree to sign the written agreement, Staff cannot make the investment in the fund. However, Staff can recommend the potential investment to the Investment Committee if staff deems it appropriate based on all the circumstances.

Since the last update was provided to the Investment Committee (April 2007), Staff has not had a fund whose general partner was unwilling to sign the written agreement.

As part of the due diligence on each new private equity fund, Staff and its consultants evaluate the general partner's track record to see if there is a history of investing in Outsourcers as defined in the Policy. If so, Staff cannot make the investment in the fund. However, Staff can recommend the potential investment to the Investment Committee if staff deems it appropriate based on all the circumstances. Staff receives from the consultant an affirmative statement as to whether or not the fund has a history of investing in Outsourcers. Based on the due diligence conducted by Staff and consultants on each new fund to date, no general partners have been deemed to have a history of investing in Outsourcers as defined.

The Policy allows general partners to request a waiver for a portfolio company that would otherwise be deemed an Outsourcer by making a written request to Staff. Staff has not received any such requests to date.

To date, there has not been any adverse impact on AIM's investment opportunities or issues associated with compliance as a result of implementing the Policy. Experience to date suggests that the private equity market has accepted the Policy and that continued implementation should not have an adverse impact on the AIM Program.

Staff will continue to implement the Policy. Staff is available to answer any questions the Investment Committee may have.

V. STRATEGIC PLAN:

Goal VIII, manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions and Goal IX, achieve long-term, sustainable, risk-adjusted returns.

VI. RESULTS/COSTS:

Additional legal negotiation and due diligence costs have been incurred as this policy is implemented for future investments. There may also be future investment opportunity costs that cannot be measured at this time.

Members of the Investment Committee
June 16, 2008
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